



The Evaluator as a Consultant

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New Opportunities for Internal Review Evaluators

- ▶ That requires careful planning
- ▶ Attention to potential risks
- ▶ Balanced successfully – could yield significant value to the function and organization!



Presentation Overview

- ▶ The changing environment for Internal Review Evaluators
- ▶ Responding to the change
- ▶ Some threats
- ▶ Consulting and Advisory Services – defined
- ▶ New Yellow Book standards for nonaudit services
- ▶ Consulting and Advisory standards we should adopt
- ▶ Risks and advantages from performing consulting and advisory services



Internal Review Organizations Are Changing!

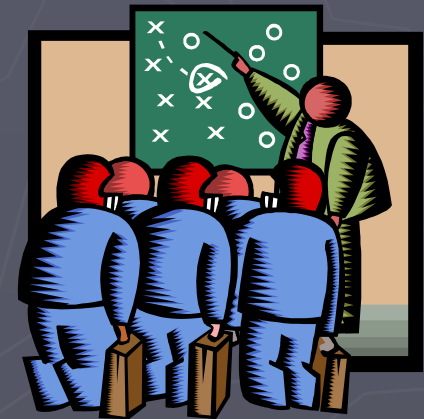
We should be energized by the new role for internal review:

- Internal Review – not to long ago – focused largely on measuring, evaluating, and reporting on the effectiveness of internal controls.
- Refocus of core mission (assurance services) to include management controls and risk assessment.
- Addition of consultative services to the internal review evaluator's defined set of competencies has introduced an entirely new dimension to the profession.



Internal Review Organizations Are Changing! (cont'd)

- Now expanding their role by working with management on ways to improve operations and add continuous value to the organization.



Internal Review now performing a much broader spectrum of activities than ever before.

Responding to Change

- ▶ Focusing on Customers
- ▶ Planning Strategically
- ▶ Leveraging Technology
- ▶ Streamlining Their Organizations
- ▶ Reengineering Audit Processes
- ▶ Introducing New Services



Threats to Internal Review

- ▶ Although consulting work provides many new opportunities for internal review, it can also pose a threat to the function if the transition toward providing consulting services is not managed carefully. Specifically,
 - Consulting could jeopardize internal review's traditional role as the command's trusted, independent and neutral monitor of the command's actions.
 - Command may find that internal review consulting work affects its ability to review management activity objectively.
 - ▶ Failure to effectively serve the command could damage internal review's credibility and, in some cases, ultimately lead to downsizing of the internal review.

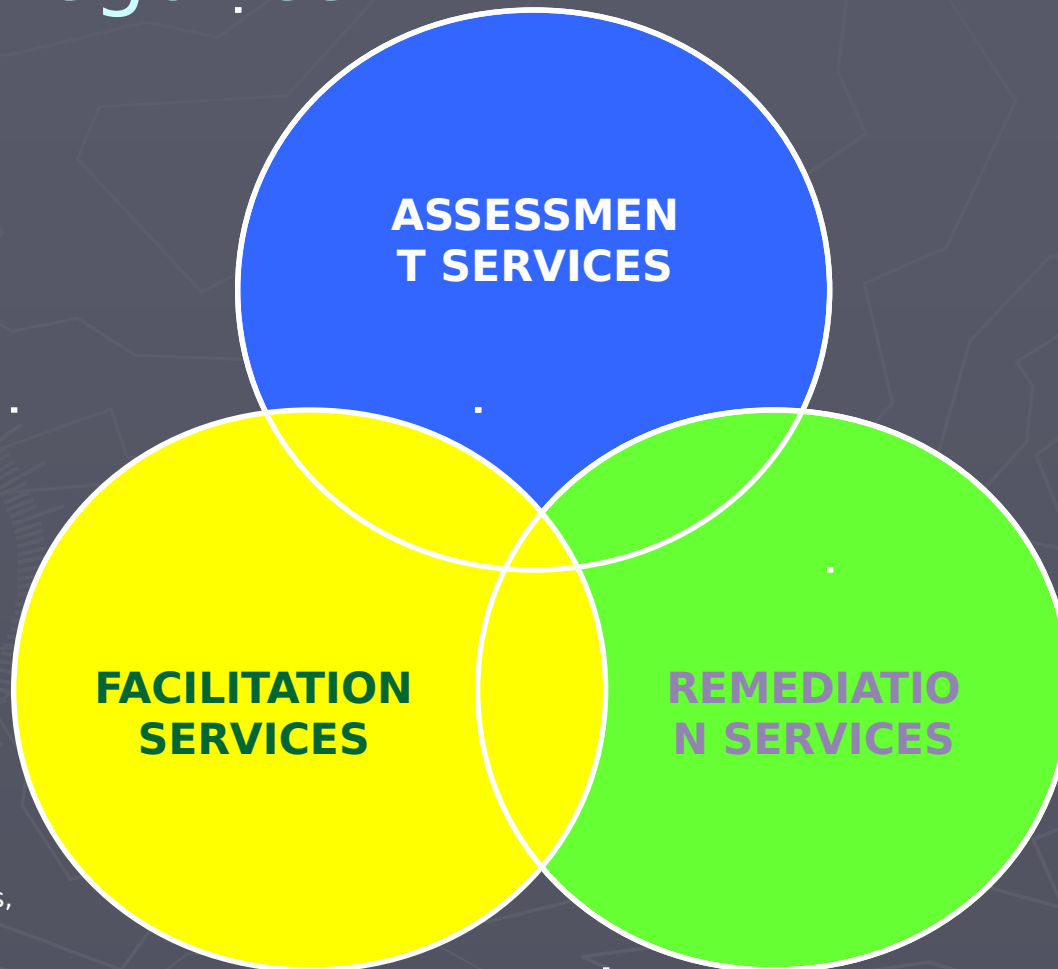


Internal Review Continuum



EMERGING TRENDS IN CONSULTING SERVICES

Consulting Evolving Into Three Categories



CATEGORIES OF CONSULTING ENGAGEMENTS

Assessment Services

DEFINITION

Assessment engagements are those in which the auditor examines/evaluates a past, present, or future aspect of operations, and renders information to assist management in making decisions.

EXAMPLES

- *Assess risk of physical security breach*
- *Evaluate a proposed reorganization plan*
- *Assess proposed internal controls*
- *Estimate total costs of decentralized acquisition*

CATEGORIES OF CONSULTING ENGAGEMENTS

Facilitation Services

DEFINITION

Facilitation services are those in which the auditor assists management in examining organizational performance for the purpose of promoting change. In a facilitation role, the auditor does not judge organizational performance. Instead, the auditor guides management in identifying organizational strengths and

EXAMPLES

- *Strategic planning support*
- *Business process reengineering support*
- *Benchmarking*
- *Performance measurement*
- *Control self assessment*

Source: Richard Chambers, IIA

CATEGORIES OF CONSULTING ENGAGEMENTS

Remediation Services

DEFINITION

Remediation services are those in which the auditor assumes a direct role designed to prevent or remediate known or suspected problems on behalf of a client.

EXAMPLES

- *Developing and delivering training courses*
- *Reviewing or drafting proposed policies or systems*
- *Augmenting operating personnel*

Snapshot: IR Engagements

Period	Formal Audit	Quick Response	Consulting/ Advisory	Liaison	Follow-up	Other	Total
31 Mar 02	385	426	689	851	254	190	2,795
30 Sep 02	414	425	763	902	297	253	3,054
31 Mar 03	379	378	565	975	222	197	2,716
30 Sep 03	317	482	509	1284	264	157	3,013
31 Mar 04	293	415	568	797	225	203	2,501

Consulting Defined

- ▶ For many years – formal definitions were limited or nonexistent.
- ▶ Distinction between consulting and internal review services has not always been clear.
- ▶ In recent years definitions have emerged for
 - Public accountants
 - Internal auditors
 - Government auditors



Internal Review Mission Statement

“Support leadership with state-of-the-art, reliable, timely, independent auditing and consulting services that promote best business practices consistent with laws and regulations.”



The Army Definition

“These are advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization’s operations. Examples include: counsel, advice, facilitation, process design, and training.

Services are performed IAW generally accepted government auditing standards.

Services meet the commander’s or other customer’s needs and employ the practitioner’s technical skills, education, observations, and experiences.”

Source: AR 11-7 (draft) dated 26 Jan 04

The AICPA Definition

“Professional services that employ the practitioner’s technical skills, education, observations, experiences, and knowledge of the consulting process.”

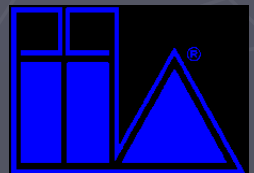


SOURCE: AICPA Professional Standards, CS 100.05

IIA Mission Statement

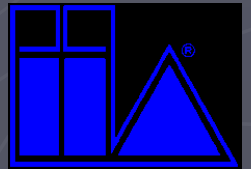
“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

SOURCE: Standards for the Professional Practice of Internal Auditing



The IIA Definition

“Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”



SOURCE: Standards for the Professional Practice of Internal Auditing

Definition for Government Auditors

“Auditors may provide professional services, other than audits . . . that consist solely of gathering, providing, and explaining information requested by decision makers or assistance to officials . . .”

SOURCE: Generally Accepted Government Auditing Standards, Paragraph 1.08 – June

Definition for Government Auditors

(cont'd)

“Auditors may (1) perform tasks requested by management that directly support the entity’s operations, such as developing or implementing accounting systems; determining account balances; developing internal control systems; evaluating assets; designing or implementing information technology . . . (2) provide information or data to a requesting party without providing verification, analysis, or evaluation of the information or data . . .

These services may or may not result in the issuance of a report.”

SOURCE: Generally Accepted Government Auditing Standards, Paragraph 2.14 – June

Yellow Book Guidance on Consulting Engagements

GAO

United States General Accounting Office
By the Comptroller General of the
United States

June 2003

**Government
Auditing Standards**
2003 Revision

GAO-03-673G

GAGAS on Nonaudit Services

- ▶ GAGAS do not cover nonaudit services since such services are not audits. Therefore, auditors should not report that nonaudit services were conducted in accordance with GAGAS. (GAGAS 2.15)
- ▶ Although GAGAS do not provide standards for conducting nonaudit services, auditors providing such services need to ensure that their independence to provide audit services is not impaired by providing nonaudit services. (GAGAS 2.16)

GAGAS does not recognize nonaudit services.

GAGAS on Nonaudit Services

(cont'd)

- ▶ Audit organizations have the capability of performing a range of services for their clients.
- ▶ Sometimes it is not appropriate to provide audit and certain nonaudit services for the same client.
- ▶ In such cases, the auditors must make a choice as to which services they will provide.
- ▶ When nonaudit services are provided – care needs to be taken to avoid situations that can impair auditor independence, either in fact or appearance.

Overarching Principles

- ▶ Auditors should avoid situations that could lead reasonable third parties to conclude that auditors are not able to maintain independence on subsequent audits.
- ▶ Two overarching principles:
 - Audit organizations should not provide nonaudit services that involve performing management functions or making management decisions.
 - Audit organizations should not audit their own work or provide nonaudit services in situations where the nonaudit services are significant/material to the subject matter of audits.

SOURCE: Generally Accepted Government Auditing Standards, Paragraph 3.13 – June 200

First Overarching Principle

- ▶ Do not perform management functions or make management decisions.
 - Creates an impairment in subsequent audits.
 - Auditors should not:
 - ▶ Serve on management committees or Boards
 - ▶ Make policy decisions
 - ▶ Supervise entity employees
 - ▶ Develop program policies
 - ▶ Authorize an entity's transactions
 - ▶ Maintain custody of an entity's assets.



First Overarching Principle

(cont'd)

► Auditors may:

- Participate in committees or task forces in a purely advisory capacity.
- Provide routine advice to management on establishing internal controls.
 - *The decision to follow the auditor's advice remains with management of the entity.*
- Provide tools and methodologies, such as
 - Best practice guides
 - Benchmarking studies
 - Internal control assessment methodologies

SOURCE: Generally Accepted Government Auditing Standards, Paragraph 3.15 – June 20

Second Overarching Principle

- ▶ Do not audit own work or provide nonaudit services that are significant/material to the subject matter of the audits.
 - Audit organizations should consider:
 - ▶ Ongoing audits
 - ▶ Planned audits
 - ▶ Requirements and commitments to provide audits (e.g., laws, regulations, rules, etc.)
 - ▶ Policies placing responsibilities to provide audits



Safeguards for Nonaudit Services

- ▶ Document consideration for nonaudit services to ensure compliance with overarching principles.
- ▶ Establish and document an understanding with the audited entity regarding:
 - Engagement objectives
 - Scope of work
 - Product or deliverables



SOURCE: Generally Accepted Government Auditing Standards, Paragraph 3.17 – June 2003

Safeguards for Nonaudit Services (cont'd)

- ▶ Establish an understanding with management that management is responsible for outcome of the work.
- ▶ In addition, the auditors must ensure management:
 - Designates officials that are responsible and accountable for overseeing the nonaudit service.
 - Monitors the performance of the nonaudit service to ensure it meets management's objectives.
 - Makes any decisions that involve management functions related to the nonaudit service and accepts full responsibility for such decisions.
 - Evaluates the adequacy of the services provided.

SOURCE: Generally Accepted Government Auditing Standards, Paragraph 3.17 – June 2003

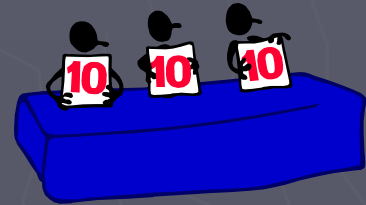
Safeguards for Nonaudit Services (cont'd)

- ▶ Preclude the staff who provided the nonaudit services from planning, conducting, or reviewing related audit (under the overarching principle that auditors cannot audit their own work).
- ▶ The audit organization should not reduce the scope of subsequent audit work beyond appropriate levels.
- ▶ Include policies and procedures in quality control systems to ensure compliance with principles.
- ▶ Need to communicate to management if potential nonaudit work will preclude subsequent audit work.
- ▶ Identify related nonaudit work to peer reviewers.

SOURCE: Generally Accepted Government Auditing Standards, Paragraph 3.17 – June 2003

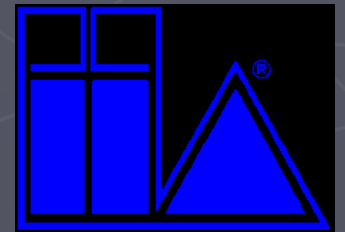
Acceptable Nonaudit Services

- ▶ Providing basic accounting or payroll assistance.
- ▶ Preparing an indirect cost proposal or cost allocation plan.
- ▶ Providing advisory services on information technology or human resources.
- ▶ Gathering and reporting unverified data to aid in legislative/administrative decisions.
- ▶ Advising an entity regarding performance of internal control self-assessments.
- ▶ Assisting a legislative body in developing questions for use at a hearing.



SOURCE: Generally Accepted Government Auditing Standards, Paragraph 3.18 – June 2003

IIA STANDARDS FOR CONSULTING ENGAGEMENTS



IIA – Quick Overview of the Standards

- ▶ The Standards consist of Attribute Standards, Performance Standards, and Implementation Standards.
 - Attribute Standards – address the characteristics of organizations and parties performing internal audit activities.
 - Performance Standards – describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.
 - Implementation Standards – apply to specific types of engagements, e.g., assurance or consulting.

The Standards are part of the Professional Practices Framework – which includes Definition of Internal Auditing, Code of Ethics, the Standards, and other guidance.

Consulting Implementation Standards

Attribute Standards

- ▶ Consulting services should be defined in audit charters. (1000.C1)
- ▶ Internal auditors may provide consulting services relating to operations for which they had previous responsibilities. (1130.C1)
- ▶ Internal auditors must disclose objectivity impairments relating to proposed consulting engagements. (1130.C2)
- ▶ If the internal audit staff lacks expertise – the chief audit executive should decline the consulting engagement or obtain assistance. (1210.C1)

Consulting Implementation Standards

Attribute Standards (cont'd)

► Due professional care should be exercised by considering:

- Needs of clients, including engagement nature, timing and reporting.
- Complexity and extent of work needed to achieve objectives.
- Cost of the consulting engagement in relation to potential benefits. (1220.C1)



Performance Standards

Accepting the Engagement

- ▶ Consulting engagements should be accepted based on the potential to:
 - improve management of risks,
 - add value,
 - and improve the organization's operations
- ▶ Once engagements have been accepted – they should be included in plan.



Performance Standards

Considering Risk

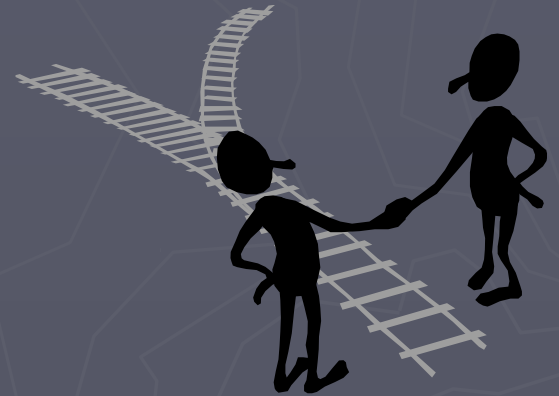
- ▶ Internal auditors should:
 - Address risk consistent with the engagement's objectives. (2120.C1)
 - Be alert to the existence of other significant risks. (2120.C1)
 - Use knowledge of risks gained from consulting engagements to identify and evaluate significant risk exposures of the organization. (2120.C2)



Performance Standards

Understanding With The Client

- ▶ Establish an understanding with consulting engagement clients about:
 - objectives,
 - scope,
 - respective responsibilities,
 - and other client expectations. (2201.C1)
- ▶ Document the understanding in significant engagements. (2201.C1)



Example of a management consulting agreement



Sample Internal Review Consulting Agreement

Office Symbol

Date

Subject: IR Consulting Agreement No. ##-2004: *Title*

This document sets forth the terms, conditions and agreements for the Internal Review Office to provide consulting and advisory services to:

(Name and Organizational Title)

The parties to this agreement understand and agree that the work to be undertaken is not a formal internal review engagement, and that the results produced shall not be represented as the results of a formal internal review engagement. The parties also agree that in the event our work discloses a violation of law, this agreement will become void.

Internal Review has been requested and has agreed to provide assistance in addressing the following:

(Describe the Issue or Objective)

The requestor in this engagement has requested that this engagement be limited, restricted or otherwise constrained by the following factors:

(State the Factors or "None")

Internal Review gives assurance that a final product will be issued to the requestor no later than: **(Date)**

The final product from this engagement will be prepared solely for the use of the requestor. It will not be released to other parties by the Internal Review Office without first informing the requestor.

The above terms and conditions are acceptable to both offices.

Requestor

Director, Internal Review Office

Draft

Performance Standards

Planning the Engagement

- ▶ Ensure engagement objectives are consistent with the overall values and goals of the organization. (2130.C1)
- ▶ Objectives should address risks, controls, and governance processes to the extent agreed upon with the client. (2210.C1)
- ▶ Ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. (2220.C1)



Performance Standards

Planning the Engagement (cont'd)

- ▶ If any reservations about the scope develop during the engagement, these reservations should be discussed with the client to determine whether to continue.

(2220.C1)

- ▶ Work programs may vary in form and content. (2240.C1)



Performance Standards

Workpapers

Develop policies governing the custody, retention, and release of engagement records.

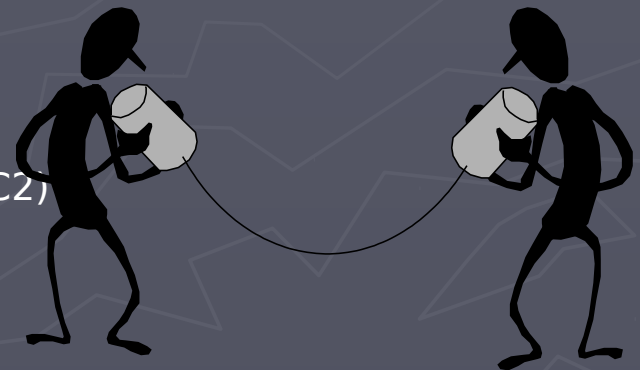
(2330.C1)



Performance Standards

Communicating the Results

- ▶ The form and content will vary depending on the nature of the engagement and needs of client. (2410.C1)
- ▶ Communicate the final results of the engagement to the client. (2440.C1)
- ▶ Communicate significant risk management, control, and governance issues to senior management and the board. (2440.C2)



Performance Standards

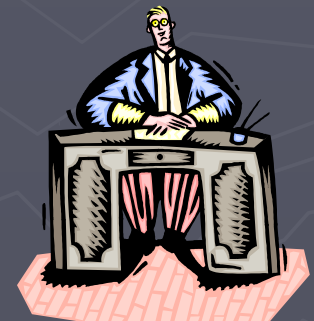
Follow-up

Monitor the disposition of results of consulting engagements to the extent agreed upon with the client.
(2500.C1)



Consulting Guiding Principles

- ▶ IIA Practice Advisory 1000 C-1, *“Principles Guiding the Performance of Consulting Activities of Internal Auditors”* suggests:
 - The charter of the internal audit activity identify consulting as a normal element of the audit activity and it suggests the charter identify examples of such work.
 - The chief audit executive must have the experience and managerial acumen to design and direct the consulting activity and to evaluate its results and recommendations.



What Guidance Should Internal Review Adopt As It Provides Consulting Services?



Internal Review Position

- ▶ Consulting services – as defined by the Institute of Internal Auditors and implemented by the *Standards for the Professional Practice of Internal Auditing* –
 - Represents audit work
 - Such work falls under the broad umbrella definition of internal auditing.

Internal Review Position

(cont'd)

- ▶ As long as Internal Review performs these services in accordance with the IIA's Attribute and Performance Standards for consulting – **there is no conflict with Government Auditing Standards.**



So How Should the Internal Review Community Approach Consulting Engagements?



Suggested Steps for Performing a Consulting Engagement

- ▶ Impairments to Independence or Objectivity
- ▶ Knowledge, skills, or other competencies
- ▶ Planning
- ▶ Project Management
- ▶ Documentation
- ▶ Communicating Results
- ▶ Follow-up



Impairments to Independence or Objectivity

- ▶ Before accepting the engagement, it's the responsibility of the IR Director to determine if independence or objectivity is impaired.
 - Evaluators may provide consulting services to operations for which they had previous responsibilities.
 - Any potential impairments should be disclosed to the client prior to accepting the engagement.



Knowledge, skills, or other competencies

- ▶ The consulting engagement should be declined if the IR Director determines the staff lacks the knowledge, skills or other competencies needed to perform all or part of the engagement.
 - This is actually a prerequisite to accepting an engagement.
 - Critical to successful engagements and client confidence.
 - If technical expertise is required – acquire it.

Planning

- ▶ Need to meet with client and agree upon objectives and deliverables.
- ▶ Document the agreement with the client.
 - Written understanding
- ▶ Set timelines and milestone dates.
- ▶ Develop a work program.
- ▶ Adequate source documentation – work papers.



Project Management

- ▶ Select the right evaluator.
- ▶ Make sure objectives are met.
- ▶ Keep the customer informed of progress.
- ▶ Meet the agreed upon time.



Documentation

- ▶ Evaluators should record relevant information to support conclusions and engagement results.
- ▶ Assemble the work papers similar to an internal review engagement.



Communicating Results

- ▶ This is where promises must be backed up with quality services.
- ▶ Deliver the product on-time and in the agreed to form.
- ▶ Make sure the product is accurate, objective, clear, concise, constructive, and complete.



Follow-up

- ▶ Stay in touch with the client.
- ▶ Establish a system to monitor the results of the engagement – if the client agrees.



Risks From Consulting Services

- ▶ Impaired Impartiality
- ▶ Loss of Objectivity
- ▶ Mistakes Could Damage Reputation
- ▶ Falling Behind on Audit Schedule
- ▶ Negative Political Exposure



Benefits Of Consulting Services

- ▶ Increases value to organization
- ▶ Better relations with clients
- ▶ Improved image
- ▶ Better exposure for evaluators
- ▶ Enhance career opportunities



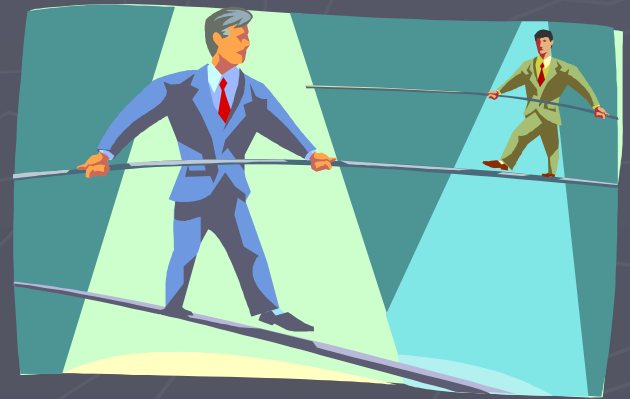
Summary

- ▶ The environment for internal review is changing.
- ▶ Internal Review evaluators are adapting.
- ▶ Addition of consulting services to our menu adds a new dimension to our profession.
 - But, this could pose a threat to the function if the transition toward providing consulting services is not managed carefully.
- ▶ Integration of consulting services requires careful planning and attention to the potential risks,
 - But, the end result is well worth the effort.



Summary (Cont'd)

- ▶ If we successfully balance our engagement and consulting responsibilities – will have the opportunity to add significant value to our organizations, and enhance our value to Army leadership.



Some Examples of Consulting at RDECOM-ARDEC

- ▶ Chaplain's Fund – Transition to new software
- ▶ Army Leasing Policy
- ▶ RDECOM-ARDEC Reorganization



Questions

